Kris Peach
Chair
Australian Accounting Standards Board
PO Box 204
Collins Street West VIC 8007

via email: standard@aasb.gov.au

8 February 2016

Dear Kris

Re: AASB ITC 33, IFRS IC DI/2015/1 and DI/2015/2

I am enclosing a copy of PricewaterhouseCooopers' responses to the following International Accounting Standards Board's (IASB) and IFRS Interpretation Committee (IFRS IC) exposure drafts:

- AASB ITC 33 *Request for Comment on IASB's Request for Views on 2015 Agenda Consultation*
- IFRIC Interpretation DI/20125/1 *Uncertainty over Income Tax Treatments*
- IFRIC Interpretation DI/2015/2 *Foreign Currency Transactions and Advance Consideration*

The letters reflect the views of the PricewaterhouseCoopers (PwC) network of firms and as such include our own comments on the matters raised in the exposure drafts. PwC refers to the network of member firms of PricewaterhouseCoopers International Limited, each of which is a separate and independent legal entity.

I would welcome the opportunity to discuss our firm's views at your convenience. Please contact me on (03) 8603 5371 if you would like to discuss our comments further.

Yours sincerely,

Margot Le Bars
Partner, PricewaterhouseCoopers

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Mr Michael Stewart
Director of Implementation Activities
International Accounting Standards Board
30 Cannon Street
London
EC4M 6XH

19 January 2016

Dear Sir

Draft IFRIC Interpretation DI/2015/2 – Foreign Currency Transactions and Advance Consideration

We are responding to your invitation to comment on the Draft IFRIC Interpretation on behalf of PricewaterhouseCoopers.

Following consultation with members of the PricewaterhouseCoopers network of firms, this response summarises the views of member firms who commented on the Exposure Draft. "PricewaterhouseCoopers" refers to the network of member firms of PricewaterhouseCoopers International Limited, each of which is a separate and independent legal entity.

The proposed interpretation addresses how to determine the date of the transaction for the purpose of determining the spot exchange rate to be used to translate the related asset, expense or income on initial recognition.

We agree with the proposed criteria for the transactions included in the scope of the draft interpretation.

There are circumstances where there are embedded foreign currency derivatives which require separation at inception of a contract and this has not been addressed within the draft interpretation. We believe it is appropriate to clarify that such transactions need to first be evaluated for embedded derivatives under the relevant guidance in IAS 39/IFRS 9.

We acknowledge that there is diversity in views as to whether the transaction recognised for a prepayment is wholly for a good or service and so entirely a non-monetary asset, or it includes a financing element and so contains both monetary and non-monetary components. However, we support the proposed consensus with regard to the date of the transaction being the earlier of the date of initial recognition of the non-monetary prepayment asset or deferred income liability, and the date that the asset, expense or income is recognised in the financial statements.

Providing illustrative examples of the application of the interpretation can be helpful. However, we suggest that example 4 be removed from the Illustrative Examples section as it could be read to imply that there is only one approach for the allocation of cash to performance obligations. This is not the subject of this Interpretation and might contradict other standards such as IFRS 15 Revenue.

We do not support the multiple prospective approaches proposed in the draft interpretation for transition and instead suggest an alternative, single approach be taken. For prospective application, we suggest the interpretation be applied only to non-monetary prepayment assets and deferred income liabilities initially recognised on or after the effective date of the interpretation.

Our detailed responses to the Interpretation Committee's questions are included in the Appendix to this letter.

We also wish to draw your attention to some additional comments we have provided on the commentary given in the draft Basis for Conclusions in relation to First-time adopters.

If you have any questions in relation to this letter please do not hesitate to contact Paul Fitzsimon, PwC Global Chief Accountant (001 416 869 2322) or Sandra Thompson (020 7212 5697).

Yours faithfully

Price Waterhouse Coopers

PricewaterhouseCoopers

Appendix

***Question 1 – Scope** – Do you agree with the scope proposed in the draft Interpretation? If not, what do you propose and why?*

We agree with the transactions included in the proposed scope in the draft Interpretation. However, we note that there is set of circumstances which might arise in relation to embedded derivatives which has not been addressed.

IAS 39 paragraph AG33d and IFRS 9 paragraph B.4.3.8d state that an embedded foreign currency derivative is not considered closely related to the host contract where the currency in which a transaction is performed is not:

- the functional currency of any substantial party to the contract;
- the currency in which the price of the related good or service is routinely denominated in transactions around the world; or
- a currency that is commonly used in contracts to purchase or sell nonfinancial items in the economic environment in which the transaction takes place.

Such an embedded foreign currency derivative would require to be separated at inception of the contract and remeasured prior to receipt of the consideration.

The draft interpretation does not address how the principle in the interpretation might apply in these circumstances.

We believe that the transaction would be separated into two components at inception of the contract:

- A host contract to buy or sell goods or services in the functional currency
- An embedded forward contract to buy/sell foreign currency

The terms of the separated embedded derivative would be determined such that its fair value is zero at initial recognition (in accordance with IAS 39 paragraph AG28 and IG C.1 and IFRS 9 paragraph B.4.3.3). Subsequently it would be remeasured to fair value until the cash consideration was received/paid. At that date, the derivative would be settled. The cash received/paid would initially be allocated to that derivative, and the remainder would be considered the prepayment/deferred income.

The effect of this would be that the balance initially recognised for the prepayment/deferred income would reflect an effective exchange rate different from the spot exchange rate at the date of initial recognition.

We suggest clarification for this scenario be provided as an addition to paragraph 4 of the draft interpretation.

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***Question 2 – Consensus** – Do you agree with the consensus proposed in the draft Interpretation? If not, why and what alternative do you propose?*

We agree with the principles of the proposed consensus –that the date of the transaction for the purpose of determining the spot exchange rate to be used is the earlier of the date of initial recognition of the non-monetary prepayment asset or deferred income liability, and the date the asset, expense or income are recognised.

We have concerns that the examples might be seen to provide guidance on the timing of recognition of income or expenses or how subsequent measurement of the non-monetary asset or liability should be performed and this might contradict guidance in other standards.

For example, IFRS 15 provides guidance on how foreign currency prepayments for goods or services are recognised in the income statement. There is a risk that the guidance in this interpretation will contradict that. In particular, example 4 explains how cash is allocated to performance obligations, which is not the subject of this interpretation

We believe this interpretation should clarify only that non-monetary prepayments or deferred income liabilities are not re-measured for changes in foreign currency exchange rates when they are recognised in the income statement.

We suggest example 4 be removed. If retained, we suggest clarification be provided that an assumption has been made for the purposes of the example; specifically, that Entity D has determined that it is appropriate to allocate consideration to products delivered on a FIFO basis.

***Question 3 – Transition** - Do you agree with the proposed transition requirements? If not, what do you propose and why?*

We note that there are multiple approaches to transition proposed in the draft interpretation. Paragraph A2(a)(ii) of the interpretation includes the reference to "a prior reporting period". Where there are multiple prior reporting periods presented, this could provide multiple points at which the interpretation could be applied under the proposals.

We note the rationale provided within the basis for conclusions – that retrospective application might prove burdensome. The basis also notes that the outreach indicated that the construction industry was particularly affected by the issue. It is likely they would opt to take the prospective transition option due to the effort which would be required for retrospective application.

We suggest a single approach for prospective application might provide more consistency amongst reporters – that the interpretation be applied prospectively to non-monetary prepayment assets and deferred income liabilities initially recognised on or after the effective date of the interpretation. We suggest paragraph A2(b) be amended as follows:

"(b) prospectively to all assets, expenses and income in the scope of the Interpretation <u>initially recognised</u> on or after <u>the effective date of the interpretation.</u>

~~i. The beginning of the reporting period in which an entity first applies the Interpretation; or~~

ii. ~~The beginning of a prior reporting period presented as comparative information in the financial statements of the reporting period in which an entity first applies the Interpretation.~~

We think that paragraph A3(a) should be retained where the above change is made but amended to refer only to paragraph A2(b). Paragraph A3(b) would no longer be required.

Other comments

We note that paragraph BC36 refers to the election available to First Time Adopters to measure various assets at fair value as a deemed cost, and that this led the committee to decide that no specific requirements or exemptions for first time adopters were needed.

The basis for conclusions, paragraph BC 10, notes that the issues identified in the draft interpretation could affect purchases of inventory. There is no election available in IFRS 1 to measure inventory at fair value as deemed cost.

We acknowledge that the scenarios where the impact on inventory would be material might be rare. However, the Basis for Conclusion paragraph BC4(a) notes that the construction industry is particularly affected by the issue addressed by the interpretation, and inventory balances in that industry can be significant and longer term in nature.

Accordingly, we think that it would be helpful to include in the basis for conclusions the rationale for why transition relief is not required for inventory balances.